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SUBJECT: GOVERNMENT LOWERS GAS PRICES; EXCHANGE RATE SOARS

¶1. SUMMARY. According to the acting Minister of Commerce, the GoG will no longer subsidize fuel prices, though the government will continue to fix these prices monthly in concert with the two oil companies in Guinea. The Minister blamed a one-week, 32% appreciation in the Guinean franc on speculation and an uncertain business climate. END SUMMARY.

FUEL PRICES FALL

¶2. (U) The GoG announced on 3 January a 12.7% reduction in fuel prices, from GNF 5,500 to GNF 4,800 per liter (from $4.80 to $4.19 per gallon). Acting Minister of Commerce Falilou Barry told Econ LES that, barring a crisis, the GoG would no longer subsidize fuel. From this point forward, Barry said that a committee composed of representatives from the Ministries of Commerce, Finance, and Customs, along with the two oil companies in Guinea, Royal Dutch Shell and Total, would review worldwide conditions once per month and readjust the price accordingly. He asserted that these fixed prices would be as close to a 'market price' as possible. Barry said that the government was actually earning revenue off a small amount of import tax and VAT revenue on each liter sold, even after the recent price drop.

THE FRANC RISES

¶3. (U) Turning to the exchange rate, Barry blamed speculators for the franc's 32% appreciation, which went from GNF 5,200 and GNF 3,500 per dollar between 23 December and 2 January. He stated that rumors of drastic price cuts for fuel and rice caused many businesses to put dollar purchases of imports on hold. Further, a source told Econ LES that the widespread expectation that the government might peg the Guinea franc to a more stable currency such as the dollar or the euro prompted many people to stop hoarding dollars. Taken together, these two beliefs significantly curbed demand for other currencies, prompting the franc to soar.

¶4. (U) However, after the government squelched a rumor on January 2 about a possible drop in gasoline prices to GNF 3,000 per liter, Barry noted that the franc fell back to roughly 4,000 versus the dollar. As of 5 January, $1 was worth GNF 4,259, a level roughly where it was in early 2008.

COMMENT

¶5. (U) The new GoG fuel price policy may represent a step in the direction of full liberalization. However, it could also simply be a quick fix economic measure to show the population

that the new government is responding to their demands. The GoG is likely only able to do this because world oil prices have plummeted. If oil prices increase again, the GoG will be under significant political pressure to maintain what would quickly become the old fuel subsidy program, which is financially untenable. Despite the minister's claims that the GoG has eliminated the subsidy program, the fact that they are still adjusting the price on a monthly basis means that they are still controlling the market. END COMMENT.
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